



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 30, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Martinsburg, Iowa for the period January 1, 2017 through December 30, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain maximum internal control possible. The City should also ensure monthly book to bank reconciliations are prepared and are independently reviewed. In addition, monthly financial reports should include beginning balances, receipts, disbursements and ending balances by fund and a comparison of total disbursements for all funds to the certified budget by function.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF MARTINSBURG
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 30, 2017

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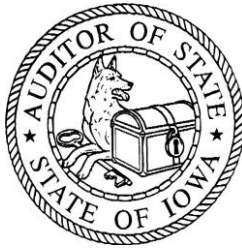
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City of Martinsburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Danny Showman	Mayor	Jan 2016	Jan 2020
Leon Wickenkamp	Council Member	Jan 2016	Jan 2020
Lavada Messerschmitt	Council Member	Jan 2016	Jan 2020
Norma Sanchez	Council Member	Jan 2014	Jan 2018
Mike Messerschmitt	Council Member	Jan 2014	Jan 2018
Jim Bowersock	Council Member	Jan 2014	Jan 2018
Ann Spilman	City Clerk		Indefinite
John Wehr	Attorney		Indefinite

City of Martinsburg



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Martinsburg for the period January 1, 2017 through December 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Martinsburg's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2017 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


8. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
9. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Martinsburg during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

November 1, 2018

Detailed Recommendations

City of Martinsburg

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparing and distributing.
 - (5) Utilities – billing, collecting, depositing, posting, and maintaining detailed accounts receivable and write-off records.
 - (6) Financial reporting – preparing and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and local option sales tax.

Monthly financial reports, including fund balances, receipts and disbursements by fund and comparisons of actual results to budget by function, were not compiled from accounting records and provided to the City Council for review and approval.

The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of and to support the Annual Financial Report (AFR) or to determine whether or not the City's disbursements for fiscal year 2017 were within the budgeted amounts.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Year-to-date totals of receipts by fund and source and disbursements by fund and function should be maintained to facilitate preparation of and to support the AFR. Monthly financial reports provided to the City Council should include fund balances, receipts and disbursements by fund and comparisons of disbursements by function to budgeted disbursements.

City of Martinsburg

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (C) Bank Reconciliations – The fund balances in the City’s general ledger were not reconciled to bank balances throughout the year. Using the City’s AFR balance as of June 30, 2017 and adding/deducting receipts and disbursements from the City’s monthly “Receipts Ledger” and “Expense Ledger” (neither of which are by fund) for July 2017 through December 2017, the calculated book balance agrees to the bank balance at December 31, 2017.

Recommendation – The City should establish procedures to ensure bank balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (D) Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (E) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published (or posted in three places designated by city ordinance if the City’s population is less than 200), including total disbursements from each fund and a summary of receipts. The minutes postings did not include total disbursements from each fund and a summary of receipts, as required.

Recommendation – The City should comply with the Code of Iowa and include total disbursements from each fund and a summary of receipts in the posted minutes.

- (F) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (G) Financial Condition – Based on a review of the City’s fiscal year 2017 AFR, the Special Revenue and Proprietary funds had deficit balances of \$69,853 and \$37,962, respectively, at June 30, 2017.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

- (H) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

City of Martinsburg

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (I) Security of Unused Checks – Unused checks are not stored in a secure location.

Recommendation – The City should establish procedures to ensure unused checks are stored in a secure location.

- (J) Disbursements – One disbursement tested, totaling \$150, was not approved by the City Council. The disbursement was not included on the list of claims approved by the City Council. Review of invoices or other supporting documentation is not documented by the signature or initials of the reviewer and date of the review.

Recommendation – All disbursements should be approved by the City Council. Invoices or other supporting documentation of disbursements should be documented by the signature or initials of the reviewer and date of the review.

- (K) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires 100% of LOST receipts to be used for infrastructure. The City has not properly tracked LOST receipts, disbursements and unspent balances to ensure compliance with the ballot provisions.

Recommendation – The City should establish procedures to track LOST receipts, disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot provisions.

- (L) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (M) Monthly Internet Reimbursement – The City Clerk received \$20 per month as reimbursement for internet service at her home. The City was unable to provide documentation the City Council authorized this reimbursement.

Recommendation – The City Clerk's internet reimbursement should be authorized by the City Council and the authorization should be documented in the City Council meeting minutes.

City of Martinsburg

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (N) Mayor and City Council Compensation – Chapter 372.13(8) of the Code of Iowa requires “By ordinance, the council shall prescribe the compensation of the mayor, council members, and the other elected city officers...”. The Mayor and City Council member salaries were approved by the City Council and documented in the City Council meeting minutes. However, the salaries were not set by ordinance, as required.

In addition, in January 2016, the Mayor’s compensation increased from \$57.50 to \$75 per meeting. There is no evidence the City Council approved this increase.

Recommendation – The City should set compensation for the Mayor and City Council members by ordinance, as required.

- (O) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled monthly. A delinquent account listing is not maintained.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts monthly. A delinquent account listing should be maintained monthly. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (P) Collection of Delinquent Sewer Accounts – The City does not have written procedures to govern the collection of delinquent sewer accounts. The City’s procedure has been to notify delinquent customers toward the end of each fiscal year that unless paid by June 30, the delinquent amount will be certified to the County as a special assessment. However, during the period reviewed, the City Clerk allowed the Mayor and one other customer to set up a payment plan to pay their delinquent amounts, plus current monthly charges, by June 30, 2019, in lieu of the amounts being certified to the County. There is no evidence these payment plans were approved by the City Council.

In addition, at the time the Mayor’s payment plan was established, the Mayor’s delinquent sewer account totaled \$666.12. As of the date of this report, the Mayor has accrued additional delinquent amounts of \$409.56 for fiscal year 2018 and \$232.52 for fiscal year 2019, including late fees, and has made only two payments of \$100 each on his sewer bill since entering into the payment plan with the City. On October 31, 2018, the Mayor’s delinquent sewer amount totaled \$1,108.20.

Recommendation – The City should seek immediate payment of the \$1,108.20 owed by the Mayor or certify the delinquent amount to the County. The City should establish written policies and procedures to govern the collection of delinquent sewer accounts and should apply the policies and procedures consistently to all sewer customers.

City of Martinsburg

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Adjoa S. Adanledji, CPA, Staff Auditor


Marlys K. Gaston, CPA
Director